

**THE CHILDREN'S CENTER AND THE
CHILDREN'S CENTER ENDOWMENT TRUST**

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2006



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

We have audited the consolidated statement of financial position of The Children's Center and The Children's Center Endowment Trust (collectively "the Center") as of June 30, 2006 and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the Center's 2005 financial statements and, in our report dated August 10, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of the Center as of June 30, 2006, and the changes in net assets, its cash flows, and its functional expenses for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2006 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Mayer Hoffman McCann P.C.

Salt Lake City, Utah
August 29, 2006

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2006 with Summarized Totals for 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2006	Summarized Totals 2005
<u>ASSETS</u>					
CURRENT ASSETS					
Cash and cash equivalents	\$ 475,921	\$ 777,014	\$ 1,545,000	\$ 2,797,935	\$ 490,949
Accounts receivable, less allowances for contractual agreements and doubtful accounts of \$40,000 in 2006	249,374	-	-	249,374	300,012
United Way receivable	-	138,955	-	138,955	180,461
Pledges receivable	8,500	-	-	8,500	5,340
Campaign pledges receivable	-	841,334	45,000	886,334	-
Prepaid expenses and other assets	35,959	-	-	35,959	39,382
TOTAL CURRENT ASSETS	<u>769,754</u>	<u>1,757,303</u>	<u>1,590,000</u>	<u>4,117,057</u>	<u>1,016,144</u>
PROPERTY AND EQUIPMENT, net	<u>2,035,632</u>	<u>-</u>	<u>-</u>	<u>2,035,632</u>	<u>2,188,846</u>
OTHER ASSETS					
Promise to give, less discount of \$12,899	-	23,501	-	23,501	24,598
Campaign pledges receivable, less discount of \$48,098	-	191,070	103,363	294,433	-
Investments	3,104,792	-	-	3,104,792	2,947,327
TOTAL OTHER ASSETS	<u>3,104,792</u>	<u>214,571</u>	<u>103,363</u>	<u>3,422,726</u>	<u>2,971,925</u>
TOTAL ASSETS	<u>\$ 5,910,178</u>	<u>\$ 1,971,874</u>	<u>\$ 1,693,363</u>	<u>\$ 9,575,415</u>	<u>\$ 6,176,915</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 219,745	\$ -	\$ -	\$ 219,745	\$ 220,161
TOTAL CURRENT LIABILITIES	<u>219,745</u>	<u>-</u>	<u>-</u>	<u>219,745</u>	<u>220,161</u>
NET ASSETS					
Unrestricted					
Undesignated	662,472	-	-	662,472	713,970
Investment in property and equipment, net	2,035,632	-	-	2,035,632	2,188,846
Endowment Trust	2,992,329	-	-	2,992,329	2,848,879
Temporarily restricted	-	1,971,874	-	1,971,874	205,059
Permanently restricted	-	-	1,693,363	1,693,363	-
TOTAL NET ASSETS	<u>5,690,433</u>	<u>1,971,874</u>	<u>1,693,363</u>	<u>9,355,670</u>	<u>5,956,754</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,910,178</u>	<u>\$ 1,971,874</u>	<u>\$ 1,693,363</u>	<u>\$ 9,575,415</u>	<u>\$ 6,176,915</u>

See Notes to Financial Statements

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2006 with Summarized Totals for 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals 2006</u>	<u>Summarized Totals 2005</u>
PUBLIC SUPPORT AND REVENUES					
Public support					
Contributions	\$ 339,027	\$ 1,981,715	\$ 1,693,363	\$ 4,014,105	\$ 420,774
Special events (less direct expenses of \$66,923 in 2006 and \$65,913 in 2005)	194,259	-	-	194,259	201,932
United Way allocation	-	139,264	-	139,264	181,872
	<u>533,286</u>	<u>2,120,979</u>	<u>1,693,363</u>	<u>4,347,628</u>	<u>804,578</u>
Revenues					
Federal and state contract fees	870,057	-	-	870,057	926,356
Valley Mental Health contract fees	1,208,305	-	-	1,208,305	1,221,103
Private fees	408,393	-	-	408,393	481,750
	<u>2,486,755</u>	<u>-</u>	<u>-</u>	<u>2,486,755</u>	<u>2,629,209</u>
Less contractual allowances	(418,893)	-	-	(418,893)	(438,806)
	<u>2,067,862</u>	<u>-</u>	<u>-</u>	<u>2,067,862</u>	<u>2,190,403</u>
Investment return - non-endowment	54,108	-	-	54,108	4,893
Investment return - endowment	156,868	-	-	156,868	221,023
Miscellaneous	16,311	-	-	16,311	71,167
	<u>227,287</u>	<u>-</u>	<u>-</u>	<u>227,287</u>	<u>297,083</u>
TOTAL PUBLIC SUPPORT AND REVENUES	<u>2,828,435</u>	<u>2,120,979</u>	<u>1,693,363</u>	<u>6,642,777</u>	<u>3,292,064</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>354,164</u>	<u>(354,164)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL PUBLIC SUPPORT, REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS	<u>3,182,599</u>	<u>1,766,815</u>	<u>1,693,363</u>	<u>6,642,777</u>	<u>3,292,064</u>
EXPENSES					
Day treatment	1,690,300	-	-	1,690,300	1,667,626
Testing and consultation	372,031	-	-	372,031	362,224
Outpatient	257,691	-	-	257,691	259,527
Group Home	410,369	-	-	410,369	412,314
Research	18,719	-	-	18,719	22,712
Management services	266,739	-	-	266,739	270,136
Fundraising	228,012	-	-	228,012	177,029
TOTAL EXPENSES	<u>3,243,861</u>	<u>-</u>	<u>-</u>	<u>3,243,861</u>	<u>3,171,568</u>
CHANGE IN NET ASSETS	<u>(61,262)</u>	<u>1,766,815</u>	<u>1,693,363</u>	<u>3,398,916</u>	<u>120,496</u>
NET ASSETS, BEGINNING OF YEAR	<u>5,751,695</u>	<u>205,059</u>	<u>-</u>	<u>5,956,754</u>	<u>5,836,258</u>
NET ASSETS, END OF YEAR	<u>\$ 5,690,433</u>	<u>\$ 1,971,874</u>	<u>\$ 1,693,363</u>	<u>\$ 9,355,670</u>	<u>\$ 5,956,754</u>

See Notes to Financial Statements

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2006 with Summarized Totals for 2005

	Totals 2006	Summarized Totals 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,398,916	\$ 120,496
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	178,611	177,694
Donated stock	(10,669)	(4,079)
Discount on long-term promises to give	1,097	-
Unrealized gain on investments	25,836	(102,201)
Realized gains on investments	(98,651)	(43,507)
Gain on disposal of fixed assets	-	(3,000)
Decrease (increase) in operating assets:		
Accounts receivable	50,638	48,964
United Way receivable	41,506	-
Pledges receivable	(3,160)	8,315
Campaign pledges receivable	(1,180,767)	-
Prepaid expenses and other assets	3,423	(2,481)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(416)	12,160
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,406,364	212,361
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(25,397)	(24,239)
Proceeds from sale of investments	141,489	651,188
Purchase of investments	(215,470)	(886,086)
Proceeds from sale of property and equipment	-	3,000
NET CASH FLOWS FROM INVESTING ACTIVITIES	(99,378)	(256,137)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,306,986	(43,776)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	490,949	534,725
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,797,935	\$ 490,949

See Notes to Financial Statements

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2006 with Summarized Totals for 2005

	Day treatment	Testing and consultation	Outpatient	Group Home	Research	Management services	Fund-raising	Totals 2006	Summarized Totals 2005
Salaries	\$ 1,040,170	\$ 233,161	\$ 186,529	\$ 262,441	\$ -	\$ 170,986	\$ 62,176	\$ 1,955,463	\$ 1,986,000
Payroll taxes	75,568	16,886	13,509	19,286	-	12,383	4,503	142,135	144,258
Employee insurance	120,312	25,227	20,182	28,445	-	18,500	6,727	219,393	208,900
Employee retirement	27,889	5,885	4,709	8,330	-	4,317	1,570	52,700	62,197
Professional insurance	22,513	2,814	2,814	8,611	-	-	-	36,752	37,171
Depreciation and amortization	108,105	22,522	10,510	28,465	-	7,507	1,501	178,610	177,694
Office supplies	12,500	1,059	508	40	-	727	727	15,561	12,378
Program materials	19,003	11,779	4,497	6,137	2,371	-	-	43,787	29,216
Food	11,087	3,281	343	14,975	1,075	-	1,799	32,560	30,104
Postage	5,413	1,030	231	7	-	1,017	-	7,698	8,183
Printing	3,072	268	77	-	2,509	576	31,447	37,949	16,270
Publications and testing material	281	6,864	-	-	1,240	141	-	8,526	8,351
Telephone	7,117	1,587	640	4,052	-	457	93	13,946	16,043
Utilities	25,208	5,252	2,451	8,393	-	1,751	350	43,405	37,798
Repairs and maintenance	37,685	7,851	3,664	8,224	-	2,617	523	60,564	64,216
Janitorial service and supplies	22,844	4,759	2,221	3,256	-	1,586	317	34,983	35,107
Rent	454	95	44	-	-	32	6	631	1,262
Property insurance	9,276	1,933	902	2,759	-	644	129	15,643	15,992
Professional fees	24,957	14,736	840	-	10,313	17,908	112,590	181,344	135,268
Bad debts and collection expense	13,170	732	732	-	-	-	-	14,634	18,972
Transportation	90,243	268	505	4,841	-	-	-	95,857	75,565
Meetings and conventions	8,263	2,582	1,499	125	-	267	66	12,802	14,152
Endowment management fee	-	-	-	-	-	13,418	-	13,418	11,511
Miscellaneous	3,154	1,040	88	1,982	1,211	11,765	3,460	22,700	22,160
In-kind rent	2,016	420	196	-	-	140	28	2,800	2,800
	<u>\$ 1,690,300</u>	<u>\$ 372,031</u>	<u>\$ 257,691</u>	<u>\$ 410,369</u>	<u>\$ 18,719</u>	<u>\$ 266,739</u>	<u>\$ 228,012</u>	<u>\$ 3,243,861</u>	<u>\$ 3,171,568</u>

Note: Fundraising expenses include \$168,236 of capital campaign expenses.

See Notes to Financial Statements

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations – The Children's Center is a private, non-profit 501(c)(3) agency that provides treatment for troubled children (ages 2-6) and their families. Founded in 1961 by Dr. Agi Plenk, The Children's Center consists of two treatment facilities, one near the University of Utah and one in Kearns, Utah, that includes an adjacent residential group home. The Children's Center is one of the largest clinical agencies in the country serving preschool-aged children with emotional and behavioral disturbances. The Children's Center's programs include psychological and psychiatric assessments, preschool day treatment, consultation and training to day care centers, after school therapy groups, and individual and family therapy. The Children's Center believes in being a resource for community organizations and a training center to enhance care for young children and their families.

The Children's Center Endowment Trust is a separate 501(c)(3) entity, governed by a board of five trustees, which holds investments to provide for the future needs of The Children's Center. Earnings from The Children's Center Endowment Trust investments are used for capital improvements, research, and program development.

Basis of accounting – The accompanying consolidated financial statements include the combined accounts and operations of The Children's Center and The Children's Center Endowment Trust (collectively "the Center") because the two boards and the economic interests of the two entities are interrelated. All inter-company balances and transactions have been eliminated.

The consolidated financial statements of the Center have been prepared on the accrual basis of accounting and in conformity with accounting pronouncements and standards which apply to nonprofit organizations. Accordingly, the net assets of the Center have been classified as unrestricted, temporarily restricted or permanently restricted based on restrictions placed upon the use of the resources by the original donors.

- **Unrestricted net assets** – The net assets of The Children's Center include contract fees, earned revenues, proceeds from special events, gains, and unrestricted contributions net of related expenses and are available for general operations of The Children's Center. Unrestricted net assets also may consist of amounts that are internally restricted and board designated.

The net assets of The Children's Center Endowment Trust total \$2,992,329 at June 30, 2006. The Children's Center Endowment Trust has been funded with proceeds from special events, donor gifts and transfers of surplus from The Children's Center. The income and up to 25% of the principal may be distributed in any year. To date the trustees have not distributed any of the principal of the trust.

- **Temporarily restricted net assets** – include contributions which include time or purpose restrictions imposed by the donors. When a donor restriction expires temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (Continued)

- **Permanently restricted net assets** – consist of investments to be held indefinitely according to the restrictions of the donor. The income is expendable to support the operations of the Center. Realized and unrealized gains and losses are recorded in the statement of activities as additions to unrestricted net assets.

Use of estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents.

Accounts receivable – Accounts receivable are recorded at their net realizable value. The Children's Center uses the allowance method to determine uncollectible receivables. The allowance is based on historical experience and management's analysis of specific balances.

Promises to give and campaign pledges receivable – Promises to give and campaign pledges receivable are recorded at their estimated fair value. Amounts due later than one year are recorded at the present value of estimated future cash flows using a risk free interest rate. As of June 30, 2006, management of the Center considered all balances to be collectible, therefore, no allowance has been recorded.

Investments – Investments are recorded at their fair value at year end with any unrealized gains or losses reflected in the statement of activities as part of investment return.

Property – All expenditures for land, buildings, furniture fixtures, and equipment are recorded at cost. Donated fixed assets are recorded at the fair value at the date of donation.

Depreciation and amortization is computed on the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Buildings	40 years
Leasehold Improvements	10-25 years
Furniture, fixtures and equipment	4 – 5 years

Revenue recognition – Revenues are recorded based on the Center's standard fee schedule for services performed. Contractual allowances, which represent the differences between the fee schedule and the amounts receivable from public agencies and private patients, are deducted from fees for services. Receivables are recorded at the net amount.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by donors for specific purposes are reported as temporarily restricted or permanently restricted contributions that increase those net asset classes.

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (Continued)

However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

Significant donations of goods and services are received by the Center for use in their annual signature fundraising event. These contributed goods and services are auctioned at the event and the estimated fair market value of these donations is determined to equal the proceeds from the auction. This amount is recorded as contribution revenue in the records of the Center and totaled \$96,115 for the year ended June 30, 2006.

Functional allocation of expenses – The costs of programs and supporting services have been summarized on a functional basis in the statement of activities. All direct costs are charged to the functional area they pertain to. Indirect costs are charged to programs and supporting services based on estimates made by management taking into account the nature of the expense and how it relates to the functional area. General and administrative costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Center.

Income taxes – The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and accordingly, no provision has been made for Federal income tax.

(2) Summarized financial information

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

(3) Campaign pledges receivable and promises to give

In fiscal year 2006, the Center began a fundraising effort for the Campaign for a New Children's Center: Little Kids with Big Problems Need Your Help (Campaign). The goal of the Campaign is to raise ten million dollars for a new facility and to grow the Center's endowment for the funding of future operations and programs. Campaign pledges receivable consist of pledges restricted for the Campaign.

The Center has also recorded rent-free use of the land as an unconditional promise to give. In 1969 the Center entered into a lease agreement with the University of Utah. Under the terms of the agreement the Center received rent-free for a period of 50 years the use of the land on which the Center built their main facility. The lease agreement specifies that in exchange for the free rent, the ownership of the building will revert to the University of Utah at the end of the lease term.

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

NOTES TO FINANCIAL STATEMENTS

(3) Campaign pledges receivable and promises to give (Continued)

Pledges and promises due in more than one year are reflected at the present value of estimated future cash flows using a risk-free interest rate ranging from 5.13% to 6.9% and consist of the following at June 30, 2006:

Amounts due in:		
One year	\$	886,334
Two years		119,133
Three years		118,998
Four years		90,800
Five years		24,800
Thereafter		25,200
		<hr/>
		1,265,265
Less unamortized discount		60,997
Total pledges and promises to give	\$	<hr/> <hr/> 1,204,268

The unamortized discount consists of \$48,098 related to the temporarily restricted and permanently restricted campaign pledges and \$12,899 related to the long-term promise to give for rent-free use of land.

(4) Property and equipment

The costs and related depreciation and amortization of property and equipment at June 30, 2006 are as follows:

Cost		
Land	\$	12,150
Buildings and leasehold improvements		2,921,835
Furniture and fixtures		804,866
Land improvements		339,611
Construction in progress		4,061
Total cost		<hr/> 4,082,523
Accumulated depreciation and amortization		2,046,891
Net property and equipment	\$	<hr/> <hr/> 2,035,632

The aggregate depreciation charged to operations was \$178,611 for the year ended June 30, 2006.

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

NOTES TO FINANCIAL STATEMENTS

(5) Investments and investment return

Investments are stated at fair value and are summarized as follows as of June 30, 2006:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Common stocks	\$ 736,695	\$ 917,733	\$ 917,733
Corporate bonds	188,504	187,186	187,186
U.S. Government bonds	608,710	589,813	589,813
Municipal bonds	31,188	30,993	30,993
Mutual funds - stocks	937,386	975,430	975,430
Mutual funds - bonds	53,606	50,700	50,700
Mutual funds - other	352,937	352,937	352,937
	<u>\$ 2,909,026</u>	<u>\$ 3,104,792</u>	<u>\$ 3,104,792</u>

Investment return for the year ended June 30, 2006 consists of the following:

	<u>Unrestricted</u>
Non-endowment investments:	
Interest income and investment income	\$ 55,087
Gain on sale of investments	326
Dividends	13
Net unrealized loss on investments	(1,318)
Total return	<u>\$ 54,108</u>
Endowment investments:	
Endowment investments:	
Interest income and investment income	\$ 48,880
Gain on sale of investments	113,027
Dividends	19,479
Net unrealized loss on investments	(24,518)
Total return	<u>\$ 156,868</u>

Investment returns on the endowment investments is unrestricted and undesignated.

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

NOTES TO FINANCIAL STATEMENTS

(6) Temporarily restricted net assets

Temporarily restricted net assets consist of the following at June 30, 2006:

Cash and receivables:

Cash restricted for the Campaign	\$ 777,014
United Way promise to give	138,955
Pledges restricted for the campaign, net	1,032,404
Promise to give for rent-free use of land for Eastside facility	<u>23,501</u>

Total temporarily restricted net assets \$ 1,971,874

(7) Permanently restricted net assets

Permanently restricted net assets consist of the following at June 30, 2006:

Cash and receivables:

Cash restricted for the endowment	\$ 1,545,000
Receivables restricted for the endowment, net	<u>148,363</u>

Total permanently restricted net assets \$ 1,693,363

(8) Retirement plan

The Center has a 401(k) defined contribution plan. Any employee may participate and contribute on a pre-tax basis. The Center matches employee contributions up to 2% of their annual salary, and if the employee is full-time and has achieved the one year of service requirement, the Center adds an additional 3% contribution. For the year ended June 30, 2006, the Center contributed \$52,702.

(9) Concentration of credit risk

The Center maintains its cash and cash equivalent balances at financial institutions located in Salt Lake City, Utah. The accounts are held by financial institutions that are well established and highly regarded. The Center has not experienced any losses related to these accounts and believes that it is not exposed to any credit risk. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2006, uninsured cash balances totaled approximately \$2,421,000.

The Center also maintains accounts with three stock brokerage firms. The accounts contain cash and securities. Balances are insured by the Securities Investors Protection Corporation up to \$500,000 with a \$100,000 limit for cash.

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

NOTES TO FINANCIAL STATEMENTS

(10) Subsequent event

During the year ended June 30, 2006 the Center entered into a contract to purchase a new facility. Subsequent to year-end the transaction was completed with a final purchase price for the building of \$3,324,117 which included the assumption of debt in the amount of \$1,577,968.

ADDITIONAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Trustees

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of The Children's Center and The Children's Center Endowment Trust (collectively "the Center") for the year ended June 30, 2006. The accompanying ADDITIONAL INFORMATION is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations, and is not a required part of the basic consolidated financial statements. These schedules are the responsibility of the Center's management. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements. In our opinion, the accompanying ADDITIONAL INFORMATION is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Mayer Hoffman McCann P.C.

Salt Lake City, Utah
August 29, 2006

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

COMBINING SCHEDULE OF FINANCIAL POSITION INFORMATION

Year Ended June 30, 2006

	The Children's Center	The Children's Center Endowment Trust	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,797,935	\$ -	\$ 2,797,935
Accounts receivable, less allowance for contractual agreements and doubtful accounts of \$40,000	249,374	-	249,374
United Way receivable	138,955	-	138,955
Pledges receivable	8,500	-	8,500
Campaign pledges receivable	886,334	-	886,334
Prepaid expenses and other assets	35,959	-	35,959
TOTAL CURRENT ASSETS	4,117,057	-	4,117,057
PROPERTY AND EQUIPMENT, net	2,035,632	-	2,035,632
OTHER ASSETS			
Promise to give, less discount of \$12,899	23,501	-	23,501
Campaign pledges receivable, less discount of \$48,098	294,433	-	294,433
Investments	187,186	2,917,606	3,104,792
Intercompany receivable (payable)	(74,723)	74,723	-
TOTAL OTHER ASSETS	430,397	2,992,329	3,422,726
TOTAL ASSETS	\$ 6,583,086	\$ 2,992,329	\$ 9,575,415
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 219,745	\$ -	\$ 219,745
TOTAL CURRENT LIABILITIES	219,745	-	219,745
NET ASSETS			
Unrestricted			
Undesignated	662,472	-	662,472
Undesignated-net investment in property	2,035,632	-	2,035,632
Endowment Trust	-	2,992,329	2,992,329
Temporarily restricted	1,971,874	-	1,971,874
Permanently restricted	1,693,363	-	1,693,363
TOTAL NET ASSETS	6,363,341	2,992,329	9,355,670
TOTAL LIABILITIES AND NET ASSETS	\$ 6,583,086	\$ 2,992,329	\$ 9,575,415

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

COMBINING SCHEDULE OF ACTIVITIES INFORMATION

Year Ended June 30, 2006

	<u>The Children's Center</u>	<u>The Children's Center Endowment Trust</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUES			
Public support			
Contributions	\$ 4,014,105	\$ -	\$ 4,014,105
Special events (less direct expenses of \$66,923)	194,259	-	194,259
United Way allocation	139,264	-	139,264
	<u>4,347,628</u>	<u>-</u>	<u>4,347,628</u>
Revenues			
Federal and state contract fees	870,057	-	870,057
Valley Mental Health contract fees	1,208,305	-	1,208,305
Private fees	408,393	-	408,393
	<u>2,486,755</u>	<u>-</u>	<u>2,486,755</u>
Less contractual allowances	(418,893)	-	(418,893)
	<u>2,067,862</u>	<u>-</u>	<u>2,067,862</u>
Investment return - non-endowment	54,108	-	54,108
Investment return - endowment	-	156,868	156,868
Miscellaneous	16,311	-	16,311
	<u>70,419</u>	<u>156,868</u>	<u>227,287</u>
TOTAL PUBLIC SUPPORT AND REVENUES	<u>6,485,909</u>	<u>156,868</u>	<u>6,642,777</u>
EXPENSES			
Day treatment	1,690,300	-	1,690,300
Testing and consultation	372,031	-	372,031
Outpatient	257,691	-	257,691
Group Home	410,369	-	410,369
Research	18,719	-	18,719
Management services	253,321	13,418	266,739
Fund raising	228,012	-	228,012
	<u>3,230,443</u>	<u>13,418</u>	<u>3,243,861</u>
TOTAL EXPENSES	<u>3,230,443</u>	<u>13,418</u>	<u>3,243,861</u>
CHANGE IN NET ASSETS	<u>3,255,466</u>	<u>143,450</u>	<u>3,398,916</u>
NET ASSETS, BEGINNING OF YEAR	<u>3,107,875</u>	<u>2,848,879</u>	<u>5,956,754</u>
NET ASSETS, END OF YEAR	<u>\$ 6,363,341</u>	<u>\$ 2,992,329</u>	<u>\$ 9,355,670</u>

OTHER REPORTS



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

We have audited the consolidated financial statements of The Children's Center and The Children's Center Endowment Trust (collectively "the Center"), as of and for the year ended June 30, 2006, and have issued our report thereon dated August 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed

no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Center's management, Board of Trustees and the government funding agencies. It is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hoffmann McLaw P.C.

Salt Lake City, Utah
August 29, 2006



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**INDEPENDENT AUDITORS' REPORT
ON STATE LEGAL COMPLIANCE**

To the Board of Trustees

THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER ENDOWMENT TRUST

We have audited the accompanying consolidated financial statements of The Children's Center and The Children's Center Endowment Trust (collectively "the Center"), for the year ended June 30, 2006, and have issued our report thereon dated August 29, 2006.

As part of our audit we have audited the Center's compliance with the requirements governing types of services allowed or unallowed, eligibility, matching, level of effort or earmarking, reporting, special tests and provisions applicable to its major state assistance programs for the year ended June 30, 2006 as required by the *State of Utah Legal Compliance Audit Guide*. The Center received the following major assistance programs from the state of Utah and through Salt Lake County:

DCFS Day Treatment (Department of Human Services)
DCFS Residential (Department of Human Services)

The management of the Center is responsible for its compliance with the compliance requirements mentioned above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Center complied, in all material respects, with the requirements governing types of services allowed or unallowed, eligibility, matching, level of effort or earmarking, reporting, special tests and provisions applicable to its major state assistance programs for the year ended June 30, 2006.

This report is intended solely for the information of the Board of Trustees, management, and the State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Salt Lake City, Utah
August 29, 2006

**THE CHILDREN'S CENTER AND THE
CHILDREN'S CENTER ENDOWMENT TRUST**

MANAGEMENT LETTER

Year Ended June 30, 2006



MHM

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To the Board of Trustees and Management

The Children's Center and the Children's Center Endowment Trust

In planning and performing our audit of the consolidated financial statements of The Children's Center and the Children's Center Endowment Trust for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we noted certain matters that are opportunities for strengthening internal controls and improve operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the organization's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of The Children's Center and the Children's Center Endowment Trust's board of trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Salt Lake City, Utah

August 29, 2006

**THE CHILDREN'S CENTER AND THE CHILDREN'S CENTER
ENDOWMENT TRUST**

MANAGEMENT LETTER COMMENTS

Year Ended June 30, 2006

Documentation of Board Minutes

Observation

Board meeting minutes are maintained in an outline format and are missing information regarding the actual discussions that took place and the conclusions that were reached. There is no assigned individual to record, compile and present the minutes.

Recommendation

We recommend that a staff person be assigned to record and compile the minutes including details regarding the actual discussions that took place and the conclusions that were reached.

Management Response

Management concurs with the recommendation. The administrative assistant will attend meetings to record the minutes in a more complete manner.

State Compliance

Observation

Contracts with the state of Utah require that the director's salary be officially approved by the governing board. We noted that the salary of the executive director was discussed and approved in the board minutes but no formal documentation was included in the files.

Recommendation

We recommend that management maintain formal documentation for all approved wages in the employee files.

Management Response

Management concurs with the recommendation. Appropriate documentation will be maintained in all employee files, including the employee file for the executive director.

Authorization of Disbursements

Observation

Certain disbursements and requests for reimbursements lacked documentation of proper authorization.

Recommendation

We recommend that the individual assigned the responsibility of authorizing disbursements and requests for reimbursements document proper authorization by initialing or otherwise indicating approval on the supporting documentation.

Management Response

Management concurs with the recommendation. Management will assign appropriate staff responsibility for authorizing various requests for reimbursements and disbursements. Approval will be indicated appropriately on request forms or supporting documentation.

Recording of Pledges

Observation

A campaign pledge receivable before year-end was not recorded in the proper period. The finance department was not made aware of the existence of the pledge at year-end.

Recommendation

Better communication between the development department and the finance department could help resolve this issue. We recommend that the development department and the finance department communicate more frequently and in more depth concerning their activities.

Management Response

Management concurs with the recommendation. The development department and the finance department will immediately initiate a process for monthly review of all pledges and other activities.